

STRATEGY
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**PAY FOR PERFORMANCE:
CAN IT WORK IN THE DEPARTMENT OF DEFENSE?**

BY

**LIEUTENANT COLONEL REX A. SPITLER
Army National Guard**

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USAWC STRATEGY RESEARCH PROJECT

**Pay for Performance: Can it Work in the Department of
Defense?**

by

Lieutenant Colonel Rex A. Spitler
Army National Guard

Colonel Paul Cunningham
Project Advisor

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U.S. Army War College
CARLISLE BARRACKS, PENNSYLVANIA 17013

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ABSTRACT

AUTHOR: Rex A. Spitler

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The merit system compensation program that pays the salaries of Department of Defense civilians has not changed substantially in several years. In fact, it can be said that the compensation system promotes mediocrity while the private sector has established compensation programs that promote productivity. Several Public Sector Agencies, to include the Department of Defense, have initiated pay for performance pilot programs to determine if this genre of compensation plans is viable. This SRP examines the possible pay for performance programs that have been developed, their application in the public sector, and how it should be implemented in the Department of Defense on a grander scale.

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PAY FOR PERFORMANCE

Pay for Performance. In three words a whole philosophy about how individuals might be compensated is described. To some, the concept of pay for performance immediately brings to mind an old joke; "I can't afford to live on what I'd make if they paid me what I was worth!" To others, it is an easy concept to accept. After all, who would not want to be compensated for contributing more to the organization than what was expected? Who wants to work harder or contribute more than your associates and get paid the same amount? Businesses have learned that compensation is one of the key elements in recruiting, improving productivity, retaining, and motivating employees to perform at their peak levels.

Pay for performance has been around in different forms for generations. It has grown and matured within the private sector and has transition into the public sector. Some of its earlier forms are still with us today; other forms have been tried and discarded. While the concept to incorporate pay for performance into a compensation system seems like an excellent way to motivate and retain employees, the application is sometimes met with significant challenges.

This research paper will explore a brief history of pay for performance and its maturation to today. It will identify pay for performance programs and the issues that caused different levels of success. It will identify which programs have

transitioned into the public sector and report on their varying levels of success. Finally, it will recommend whether pay for performance should be used in the Department of Defense and if so, how it should be applied.

BRIEF HISTORY

Pay for performance has been with us almost since the beginning of recorded man. In the Old Testament, Jacob works for Laban, his uncle, for seven years to get his "pay". His pay for his seven years of labor is to be Rachel, the "beautiful and well favored" daughter of Laban. At the conclusion of seven years, Laban tricks Jacob and sends Leah, his eldest daughter to Jacob. Jacob confronts Laban and a new deal is struck in which for another seven years of labor, Jacob will get Rachel.¹ This illustration of pay for performance has a lesson in it that will be developed further in this paper, that what the employee thinks that he/she may be working for and what they actually get may be two completely different things.

Alford and Beatty identify that the Chaldeans were using an incentive wage plan as early as 440 B.C.² Lipson identifies four stages in the development of incentive payment systems.³ They are household, gild, domestic, and factory. The first stage started with early man and stayed essentially the same for generations until the gild and domestic stages in the Middle Ages. In the first three stages, individuals were given materials by employer and are paid by the piece. It is not until

the factory stage in the eighteenth century that we see a more modern incentive system in which "incentive methods were applied to forge and foundrymen who were remunerated on the basis of piece-wages or time-wages with a bonus on output."⁴

R. Marriott gives his interpretation as to why psychologists believe that incentive plans worked on employees centuries ago and why they may still work on employees today: "Consideration...of human behavior in general, suggest that both material and non-material motivation are mixed up in the working life at all levels. Minimum satisfaction of primary needs is dependent upon a basic standard of living but if a higher standard of living is required, any pecuniary incentive will be attractive...".⁵ While standard of living is certainly not the only reason incentive pay is attractive, surveys continue to show that incentive pay is enticing to most employees.⁶

It is the Pendleton Act in 1883 that marks the origin of the merit system and establishes the ground work for incentive pay to be introduced within the Public Sector.⁷ In 1912 with the creation of a performance appraisal system, a measurement tool is established to allow differences in performance to be recorded, and thus a necessary tool is created that will allow performance for pay.⁸ The final tool necessary to allow pay based on performance is created in 1923 with the Classification Act of 1923. This act created "a standard rating scale that allowed supervisors to rate employees for each service rendered".⁹ It is

not until the Incentive Act of 1954 that the first incentive awards are authorized and individuals can receive cash payments for superior accomplishment, suggestions, inventions, or other personal efforts.¹⁰ With the Salary Reform Act of 1962, an acceptable level of competence is introduced and authorizes an additional step increase or quality step increase for "high-quality performance."¹¹ The Civil Service Reform Act in 1978 among other things creates merit pay for middle managers (GS 13-15) and the Senior Executive Service (SES).¹² It appears that the SES pay system was built with pay for performance as one of its tenants. The SES pay system does not provide annual pay increases. It has a base pay and any increases have to be gained through awards or bonuses. There are two awards possible, one for \$10,000 and the other for \$20,000. Bonuses are possible for 50% of the SES positions within an agency and limited to no more than 20% of base salary.¹³ The Merit Pay System effective in 1981 created a pool of funds for the middle managers (GS 13-15) to be compensated dependant upon their performance. This pool of funds was created by "...reducing their comparability adjustment plus the within grade and quality step increases were pooled...".¹⁴ Since the funds came from an already established pool of funds, it was a zero base gain program.

While there was some success of the incentive program for quality step increases and cash bonuses for the GS1-12 levels, the programs for the middle managers and SES fell upon hard

times. The SES was the first group to complete an evaluation cycle and be eligible for bonuses and awards. As a group, the SES maximized the available pool of funds. Congress and some "outside observers" noted that the pay out was excessive and that something had to be done. Within six months the SES program was amended so that only 20% of the SES force could receive bonuses. With this change, the SES as a whole became very disenchanted with the program because of its limited impact.¹⁵ Remember Jacob? He got the old bait and switch too.

The middle managers were not happy about the structure of their plan from the beginning. Because it was a zero base gain program, if one individual received a bonus greater than what he would have normally received under the old program, then someone received less than what they would have normally received. In addition, it was possible for two GS-13's within the same department receiving exactly the same performance appraisal score to receive different pay increases. As a whole, the middle managers disregarded the program as truly tying pay with performance.¹⁶ Was Jacob's lesson learned again? As a result of their dissatisfaction, in 1984 the Performance Management and Recognition System (PMRS) was created.¹⁷ The PMRS corrected the potential problem of middle managers receiving less than their normal General Salary pay increases if they were performing at a satisfactory level. It also allowed satisfactory or higher rated managers to receive a quality step increase and possibly a bonus

of up to 20% of base salary for "unusually outstanding performance". Rather than pay for these bonuses or QSI's out of the same pool as before, an agency had the ability to use up to 1.5% of its payroll to fund increases.¹⁸

This program was much more successful than its predecessor was, notwithstanding, surveys still indicated that middle managers wanted to see a larger pool established for incentive pay.¹⁹ Because the pool of funds is so limited, bonuses are often spread out over a large body of managers. This results in marginal increases; therefore, the middle managers do not positively equate this bonus pay equitable to their increased performance. This dissatisfaction is compounded because they also feel that they are being under paid as a whole.²⁰

In 1994 President Clinton sought to reduce federal spending. One of the programs that he identified was PMRS. Effective 1994, all GS employees were paid the same: no bonuses.²¹ The only incentive pay available was the quality step increase or lump sum pay out equivalent to a QSI.

TYPES OF PAY FOR PERFORMANCE PLANS

There have been several types of pay for performance plans and over time, variations of those plans have emerged. This section will briefly describe the more publicized plans that have been introduced to include Individual Incentive Plans, Spot Bonuses, Group Incentive Plans, Profit Sharing Programs, Gainsharing Programs, Banding and Non-pay Incentives. It will

also address the concerns expressed by the employees or organizations that put these programs in place.

Individual Incentive Plans

As earlier stated in the history section, the basic piece rate incentive plan has been with us for many years. Lawlor states that in the 1920s and 1930s there was a tremendous growth in the piece-rate incentive plans.²² He goes on to say that piece-rate plans are best suited for "simple, repetitive manufacturing jobs". This simple piece-rate incentive plan has matured over the years. It has developed into a larger program that entails all individual incentive programs. Where the piece-rate plan is better utilized at the basic manufacturing level, individual incentive programs may include meeting any specific individual performance standard and thus be successful in a broader application. Performance standards could include measurable productivity, quality, attendance, safety, or any combination of those activities.²³ This can reach beyond the employee working on the manufacturing line to management level. There are reported problems with individual incentive plans. First and foremost in any incentive plan, the individual must recognize that there is a direct correlation with performance and pay and that there are established goals that are reasonable and achievable for those who seek to perform above average.²⁴ Additionally, the employee must believe that both he and the business are working for the same goals (i.e. not an adversarial

relationship with higher management).²⁵ If those three conditions are not met, you can have as Lawlor describes, employees outsmarting and defeating piece-rate systems by manipulating the production line. After all, the employee knows the production or manufacturing process better than any manager and can use his/her ingenuity to make the system work for them.²⁶ This program also requires a vigilant management and employee group to continuously update and maintain accurate measurement standards, to include keeping up with changes in technology and work methods.²⁷

Spot Bonuses

Spot Bonuses are generally spontaneous awards given to individuals for performance which is not otherwise measurable by a standard, promoting and recognizing initiative, improving productivity, quality, etc.²⁸ Bonuses are paid almost immediately after an action is identified so that there is an immediate correlation to activity and bonus. Most programs are highly publicized within an organization to help build morale.²⁹ One firm hands out \$35 bonus bonds to all employees.³⁰ Anytime during the year if they encounter someone who goes out of their way to help them, or helps them to improve the way they do their job can be given the bond. There are some difficulties with this program also. Problems include, employees not feeling the bonus is large enough for the work performed, disappointment of those employees who did not receive a spot award, and lack of equity

across departments (more spot awards given in department A than B).³¹

Group Incentive Plans

Group Incentive Programs are a further evolution of individual incentive plans. They take the problems with possibly pitting one employee against another to receive an individual award, to now creating an atmosphere in which the employees must work together.³² In today's work environment where there are more team work groups, especially with the reduction in management layers, this is a natural fit. Group incentive programs include production or output-based incentives where incentives are paid to a work group when quality production or out-put exceeds an agreed upon standard.³³ This program includes management incentive plans in which the management group receives an incentive when production, operational or financial goals are achieved. Project incentives where team members receive a bonus for completing a project ahead of schedule is another type. Sales incentives are paid to salespersons or sales managers when sales or profit goals are exceeded. Lastly, behavior encouragement plans where specific groups of employees receive an incentive when attendance, sick leave, or safety goals are achieved.

The problems identified with maintaining this program are very similar to those identified with individual incentive plans. There must be cooperation within the group working for a common goal. The added benefit is that in many instances, the employees

police themselves. Again, developing and maintaining accurate measurement standards are paramount.³⁴

Profit Sharing

Profit Sharing Programs take the group incentive plans to the organizational level. But rather than reward the group based upon specific smaller goals, profit sharing plans reward all of the employees based upon the profitability of the organization.³⁵ This program has the least direct correlation to individual or small group performance to pay than any of the pay for performance plans. Profit Sharing pays the employees a percentage of the organization's profits. In many instances, this incentive is paid directly to the employee's retirement plan.³⁶ This action even further removes the incentive from individual performance. Lastly, items completely out of the control of the employee could effect profit sharing such as market forces. Market forces may completely eliminate or greatly exaggerate the profits of an organization.³⁷ With the reward so far removed from the employee's immediate sight, there is little perceived correlation with his personal performance and the pay. Notwithstanding all of these issues, profit sharing continues to be one of the incentive programs organizations continue to apply. In many instances, it is created to improve the company image among its own employees as well as to recruit or retain employees.³⁸

Gainsharing

Gainsharing has been in existence since the 1940s in one form or the other. A basic description of gainsharing is: The creation of an organizational climate wherein an employee based suggestion system works with higher management to create productivity goals and a correlating financial rewards program.³⁹ Goals generally include increasing organizational productivity, reducing expected costs and actual costs, and/or profit improvement. The gainsharing program's goal is to get everyone involved in the process of achieving the established goals.⁴⁰ As the name implies, the employee shares in any savings that the organization creates. Just as its goal is to get everyone in the organization involved, it is very difficult to create and then communicate the requirements of the program to every employee. Additionally, there is a requirement to fully educate the employees on their roles and to keep them fully informed of the status of the organization in meeting its goals.⁴¹ But more importantly, the management and employee have to be committed to working together, communicating and reacting to issues in a timely manner so obstacles can be over come and goals achieved.

Banding

Banding is the collapsing of a large number of grades or tiers into a few bands with very wide salary levels.⁴² It encompasses changes in job evaluation, training and development, and the role of an employee.⁴³ No longer can the employee expect

to move up the compensation pay ladder by individually moving from pay grade to pay grade or step to step. They must now act in a team environment because in many instances, reductions in the organization reduced the number of managerial levels.⁴⁴ Now rather than basing pay on position descriptions, individuals are compensated on their expanded role on a team, or through new competencies.⁴⁵ Bands could include a different band for role specific positions including administrative, maintenance, production, professional/technical, or management, and senior management. Bands could also be based on competency levels.⁴⁶ Pay banding can be used to allow higher benefits for high achieving employees. With banding, the organization would never exceed its wage budget.⁴⁷ The negatives of this system include pressing line supervisors to recommend pay raises and communicate expectations. If they have not been formally trained, they may do a poor job of properly rewarding or counseling the employees.⁴⁸ With a large pay range, some employees may get unrealistic expectations of how much they may be able to earn.⁴⁹ Lastly, the average compensation may start to creep up due to the higher pay ceiling.

Non-Pay Systems

Non-pay systems have emerged in the private sector as an alternative to pay for performance. In this instance, the organization creates non-monetary bonuses to be used as incentives for employees. Any of the above listed programs can

be used, non-monetary bonuses replace the normal financial payout. Many organizations have found this program to be successful. As described by human resource managers, it is a whole lot easier to create excitement about receiving a physical gift such as a big screen television or a boat than percentage increases.⁵⁰ Even more rewarding to the organization is that the employee who receives an award is constantly reminded of how he got it every time he looks at it or uses it. Remember, he got it through personal achievement! The cost of a non-cash award is generally well below a cash payment because the organization can receive significant discounts for bulk purchases and the excitement of receiving a trophy item (generally \$600 in merchandise) exceeds that of receiving a check for \$600.⁵¹ Research indicates that there is a three to one ratio in cost between motivating employees through non-cash awards versus cash.⁵² Because it is not cash, it cannot be confused with the compensation plan.

In general, there are some significant pitfalls that organizations must avoid in any pay for performance programs. This includes establishing a program that rewards an employee with a bonus that adjusts only their base pay.⁵³ If an employee achieves an award through productivity improvement, should they be rewarded the rest of their career for one year's results? It is imperative that the productivity measurement tools be constantly updated. There have been many examples of excellent

plans being discarded because management was unable to keep up with changing productivity processes and the old measurement process became obsolete.⁵⁴ For organizations that have programs beyond the plant floor, especially at management levels or service industries, it is essential that performance evaluations that determine incentive benefits be conducted strictly in accordance with the incentive program and not manipulated for political, financial, "fairness to others", or any other reason.⁵⁵

In general, elements of a successful plan should include the involvement of all employees top to bottom. The plan must have a definitive correlation to performance and reward and the reward must remain the same once the program is initiated. The award may change with both management and employee agreement. The performance group has to be identified i.e. individual, group, division, corporation. Incentive awards should be paid out as soon as possible to the employee, not to the retirement plan. The incentive can be monetary or non-monetary, but it should be of sufficient size to create desire within the work force.⁵⁶ Finally, Communicate, Communicate, and Communicate.⁵⁷

PAY FOR PERFORMANCE IN THE PUBLIC SECTOR

Just like the private sector, the public sector is always looking for ways to attract highly skilled and motivated workers and then retain the productive employees for a long period of time.⁵⁸ The public sector has watched the private sector

introduce, refine and sometimes discard many pay for performance plans.⁵⁹ But in the final analysis, the public sector is convinced that incentive pay should be an important element in its compensation plan.⁶⁰ Of the major types of pay for performance plans introduced into the private sector, only a few of them have been introduced into the public sector. There are several reasons for this, the first is that some plans are based upon a profit motive. The profit sharing plan is based on bottom line profitability. At the present time, most governmental programs are budget based, not profitability based. Most of the governmental organizations are service, not product (goods) oriented, therefore, it is extremely hard to establish highly definitive productivity measures. Since the government is so broad with similar organizations across the country, it is difficult to develop one plan that is applicable to all.⁶¹ Even with one plan, productivity goals may be different across the hall, much less the country. Even with these difficulties, there have been public organizations that have ventured into the pay for performance arena.

Federal Government

As identified earlier, the federal government has established a nationwide merit pay plan for performance program in the SES and General Service ranks. The SES receives incentives through a once a year bonus and/or award. Because there are severe restrictions to its use, it is not well received

in the SES ranks.⁶² The GS employees may receive any number of monetary and non-monetary incentives. OPM has recommended that 1.15% to 1.5% of the aggregate payroll be budgeted for awards to employees. Awards are based on performance. Monetary awards include Special Act or Service Awards (\$25-\$25,000), On the Spot Cash Award (\$25-\$250), Quality Step Increases (within grade increase), Cash awards that result in tangible monetary savings for the government (\$25-\$25,000). There are a number of Honorary Awards that could be given that include a medal and a cash bonus if granted for bravery \$500-\$1,000). Non-monetary awards include time off (up to 80 hours), medals and certificates.⁶³ It is unfortunate that at most government organizations, the only incentive that receives any activity is the QSI award. It is also unfortunate that the QSI suffers from poor actual linkage of performance appraisal measures to the incentive pay and that "employees view the relatively small pay increase to small to warrant additional effort".⁶⁴ QSI's also suffer from the fact that they add to the employee's base salary, thus it is a career raise, no longer linked to performance. Another major issue is that merit pay has an internal disincentive for true pay for performance. Merit pay incorporates automatic step increases or pay raises for 20 years based solely on longevity.⁶⁵ While automatic pay raises may be appropriate for the first couple of years as an individual learns and becomes more efficient with their position, it then rewards everyone the same if they have at

least a "fully successful" performance appraisal. With no QSI's, an individual can achieve the maximum pay level for their GS level in 19 years. Individuals with QSI's reach the maximum pay level earlier.

By limiting the bonus pay-out or part of the longevity step increases to ones that need to be renewed yearly, the government will save thousands of dollars over the career of the employee. As an example, if a GS 12 earns \$50,000 a year, a QSI or step increase would be worth \$1,250. Excluding cost of living increases, over a 25 year career, the employee would earn \$1,457,109 in salary (this assumes no QSI's or the salary would be larger). If the employee received full step increases the first five years and then had to re-earn 1/2 of the pay raise based on performance while the other half was added to base pay the next ten years followed by all of the pay raise needing to be re-earned until retirement, the employee would earn the same amount over a 25 year career assuming that he/she was an outstanding employee all 25 years. If the employee was only a marginal employee, a 25 year career would only pay \$1,384,194. This could amount to a savings of \$72,915 over 25 years. Realizing that it is very unlikely that a marginal employee would last a full 25 years; this still illustrates the potential savings for the government since not all employees are outstanding every year. Multiply a small fraction of the potential savings by the large number of federal employees and

significant resources can be generated. These savings could be rolled back into the department of defense's pay roll to increase the bonuses or to decrease the number of employees that are downsized due to lack of funding.

Individual federal agencies have tried utilizing one or more of the basic pay for performance programs on a limited basis. The Defense Department has installed the gainsharing incentive program at differing levels but at Cherry Point Naval Aviation Depot in North Carolina it covers the entire installation.⁶⁶ The gainsharing plan is based on a 50/50 sharing of cost reductions, timeliness of work, and quality. The initial results are very positive. Both employees and management are optimistic about its continued success. Other smaller programs at the Tracy Depot in Tracy California, Pearl Harbor Naval Shipyard, Charleston Naval Shipyard, and McClellen Air Force Base in California to list a few have been successful also. Despite the success of these programs, incentive plans are still far and few between at the federal level. Probably the two biggest reasons for this are that there are still regulatory barriers prohibiting changes to the compensation system, but more damaging is the fact that many officials believe that either incentives will not work, or that any savings should be passed on to other under-funded programs.⁶⁷

Notwithstanding these issues, starting July 1998, DoD will establish a new pay for performance plan for 50,000 Defense

Department acquisition professionals.⁶⁸ The Acquisition Workforce Demonstration Project will do away with the General Schedule and establish new broad pay bands for the Defense Logistics Agency and the Defense Information Systems Agency. With fewer pay scales and broader pay ranges, the supervisors will adjust an employee's pay according to a contribution-based compensation and appraisal system. The supervisors will meet with employees at the beginning of each year to establish the individual's responsibilities and performance criteria in meeting the organization's objectives. The goal is to "... instead of basing the appraisal on how well a specified job is done, the appraisal is based on the job done well".⁶⁹ Pay increases will vary from zero, for those who do not exceed performance objectives, to an amount to be determined by the managers and specially designed panels for those who exceed the performance goals.

State Government

State governments have initiated pay for performance plans on a broader scale than the federal government. The states of North Carolina, Washington and Texas initiated gainsharing on a limited basis with the intention of expanding it after a trial period.⁷⁰ But to date, each of their programs, while successful, have been kept to only small sections or departments. This is unlike the state of Colorado. The state of Colorado has embraced pay for performance and is gearing up

to install it on a statewide scale.⁷¹ In 1996 Colorado's Department of Personnel published a document entitled "Colorado Peak Performance". This document outlines a "strategy and plan design for linking pay to performance". It utilizes pay banding and individual performance to determine an employee's compensation. The state will discard their old merit step increase program and establish new pay bands. The pay bands will be established for each occupational group and will have a min and max level based on market data. The bottom 75% of the pay band will be called the base building range. The top of 75% range is called the job rate. The 25% above the job rate will be called the non-base building range. As the names indicate, pay raises that fall in the bottom 75% of the pay band are added to an employee's base salary. Raises that fall in the top 25% will not and must be re-earned each year.

The key to Colorado's plan is the effective use of supervisors who will be responsible for linking pay to performance. They will do this through establishing consistent evaluation calibrations for each occupational group and then link individual pay increases to performance against those standards. Pay raises are dependent upon performance. Individuals that are rated as needs improvement will receive no pay raise. Individuals that are rated fully competent will receive up to a 5% raise not to exceed the base building range or job rate. Individuals that perform at a peak performer

level receive up to a 10% increase. Any portion of that 10% that falls under the job rate becomes part of their permanent salary. If any portion exceeds the job rate, they receive it, but it is not added to their base salary. Once an individual maximizes the base building range, all increases, if he/she continues to be rated as a peak performer, are temporary. With this limitation, no annual salary will exceed the maximum range for that occupational group. In other words, peak performers will reach the top of the base building range faster than the other employees and will be able to continually receive bonuses every year beyond that as long as they continue to perform.

There are three concerns that will have to be addressed in this plan. It is critical that all of the supervisors agree upon the calibration of pay increases based upon a specific level of performance for each occupational group. As gainsharing and other incentive programs have shown us, it is critical to get the involvement of the employees to help them establish the performance criteria or else the employee may feel that the goals are not realistic or unattached to their performance. The other concern is that once an individual reaches the top of the job rate within their occupational group, they may become dissatisfied because 25% of the comparable workforce is receiving their pay at a higher level and do not have to re-earn it every year. Of course this is strictly perception. In the private sector, it could be stated that everyone must re-earn his or her

job every year due to the market effect. The last area that should be considered is to make a part of all pay raises part bonus and part non-bonus.⁷² This will enforce to even the junior employee that compensation is based on performance and must be re-earned each year. The percentage of base building should decrease and the percentage of non-base building should increase as the employee climbs the pay band.

City Government

Below the state level, some cities have embraced pay for performance. Howard Risher describes how the city of Charlotte, North Carolina has embraced gainsharing.⁷³ In 1994, the city council approved a gainsharing plan that if a department's goals are met in two to five areas that might include, customer satisfaction, productivity, quality, time standards, safety, reducing workers compensation, vehicle accidents, and/or absenteeism, the city employees share up to 50% of the savings.⁷⁴

The city has had some success with this plan. Of 13 units, 12 met their goals in FY 96. The city's transportation director expressed the most exciting element. He said that "anytime I go to field sites, they want an update on how we are doing on our targets. Employees understand the importance of these targets and how, by working together, we can meet them."⁷⁵

Public Education

Below state level, educators have tried to tie pay with performance. The National Education Association defined "merit pay (*their term for pay for performance*) for teachers is an award for superior service."⁷⁶ Awards range from \$25 - several thousand. They are based on performance objectives established by school administrators and may include behavioral modification goals as well as student improvements in class attendance and performance on achievement tests. In most plans, the bonus is a single event and not added to base pay. Initial problems with the program included vague standards, a feeling that some of the goals were out of the direct control of the teachers, and that due to a laissez-faire attitude from the administrators, recommended changes or improvements to the school, or school programs were slow to be implemented. This reduced the opportunity for improvement. Even with these early problems, the education system continues to court pay for performance.

In 1993, the Atlanta School District initiated a pay for performance program. Their program was based on the school's ability to achieve goals approved by the Education Department.⁷⁷ If the school achieves or exceeds their goal, then the school is paid a bonus of up to \$2,000 per teacher.⁷⁸ Because of the diversity in the goals that the school must achieve, the Atlanta School Superintendent, Dr. Canada, said it requires a "...quality and high expectation on the part of students, parents, teachers,

administrators, communities and business partners. It takes everyone working together to create a positive learning environment."⁷⁹ Thus by creating a results based bonus, it gave school teachers and administrators the incentive to activate the students, parents, and community to assist the school in achieving their goals and overcoming any obstacles. The end result is that the teachers are happy, and so are the students/parents/community that can now benefit from a "School of Excellence."

On a smaller scale, the Spectrum Center, which specializes in training children and adults with developmental disabilities such as mental retardation and autism, has just undergone another revision of their pay for performance plan that has been in place since 1979.⁸⁰ As a nonprofit organization, the organization receives a fixed dollar rate for their enrollment. Their challenge was to improve their own internal culture and standards of excellence, thus creating an atmosphere of excellence that would set them apart from other nonprofit organizations in their field. With a better program, then more students are enrolled. Their approach has worked. They grew from just 30 clients to over 150. Just like the public school systems, their incentive pay includes behavioral modification and student improvement. They have also added bringing innovative programs to the center. The Center's program differs in that part of the bonus program includes bonus payments ranging from \$30-\$100 that co-workers

recommend. The Center sets aside an additional 10% of a person's salary to be awarded as a bonus for meeting their goals. Recent bonuses ranged from \$1,200 to \$10,000.

CONCLUSION

Throughout this study, there seemed to be as many problems with establishing a pay for performance system in either the private or public sector. For some organizations, even measuring whether the program has been successful has been a challenge. Notwithstanding the problems, pay for performance continues to grow and become a larger part of the nation's compensation package.⁸¹ For both the private and the public sectors, not one plan can or should be expected to fit every business. Plans must be tailored to each type of organization and one organization may have several different types of plans. One issue continues to be prevalent in each case study reviewed, that is that it is the opinion of management that pay for performance is a good idea. If the application in their departments were not successful, then all that was required was a revision of the program.

The Department of Defense must compete with private industries to attract, recruit, hire, and retain highly motivated, high achievers. To do so they must be able to offer salaries and incentives approximating those in the private sector. With greater emphasis on pay for performance in the private sector, DOD almost out of necessity has to offer a similar program. Nevertheless, this is good news for the DOD.

Sometimes the threat of losing something is a great motivator for change.

After reviewing both the private and public programs, pay for performance can work and should continue to be implemented in the DOD, moreover, it should increase in application.⁸² As identified in earlier test sites, the program must be designed for specific application and include all personnel. The application should include both monetary and non-monetary awards. The non-monetary benefits should be at the trophy level. They are less expensive to the government than monetary awards. The monetary award should be a combination of base building and non-base building increases. The base building portion should decrease as the employee rises on the pay band. Broad banding should replace the numerous pay levels and automatic step increases. This will simplify the ability of the manager to build work teams and appropriately reward high achievers. A gainsharing program should be established that would reward program achievement and not the past practices of expending a budget for the sole reason of not having the budget reduced next year. In most cases, this program will be self-funding with generated savings coming from direct budget savings and/or modified behaviors. One of the greatest benefits of this program may be the captured funding to keep more federal employees on the pay roll, thus keeping those few that remain from burning themselves out trying to improve the level of service with too

few employees. Finally, the program should remember the lesson taught to Jacob, do not change the reward once an agreement has been made.

As more of the Department of Defense and politicians are exposed to pay for performance programs, the less likely they are to balk or reject public organizations challenging their employees to perform more efficiently and effectively and then allowing them to benefit from their hard work. With this acceptance, the amount of funds authorized for awards will increase past their current levels, thus creating an even more exciting work environment. Military and public leaders will be able to capitalize on the vast untapped human potential that is lying dormant waiting for an incentive to bring it out.

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ENDNOTES

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⁷ George T. Milkovich and Alexandra K Wingdor, eds., Pay for Performance: Evaluating Performance Appraisal and Merit Pay (Washington D.C.: National Academy Press, 1991), 14.

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¹⁰ Ibid., 16.

¹¹ Ibid., 17.

¹² Ibid., 19.

¹³ Ibid., 20.

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¹⁷ Ibid., 28.

¹⁸ Department of the Army, Incentive Awards Handbook, Information, 1993, 5.

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²¹ Edward Kellough and Sally Seldon, "Pay for Performance Systems in State Government," Review of Public Personnel Administration 17 (Winter 1997): 11.

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²⁹ Ibid., 31.

³⁰ Ibid., 10.

³¹ Personnel Policies Forum, 12.

³² Howard Risher, "The Search for a New Model for Salary Management: Is There Support for Private Sector Practices?" Public Personnel Management 26 (Winter 1997): 439.

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³⁴ Ibid., 17.

³⁵ Ibid., 19.

³⁶ Ibid., 22.

³⁷ Ibid.

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⁴⁷ Marc Holzer, ed., Public Productivity Handbook, (New York: Marcel Dekker, Inc., 1992), 457.

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⁵² Ibid, 374.

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⁵⁴ Personnel Policies Forum, 17.

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⁵⁶ Livingston, 22.

⁵⁷ Lewis, 76.

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⁶² General Accounting Office, "Pay for Performance," 2.

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⁶⁵ Milkovich, 19.

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⁷⁵ Ibid.

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⁸² *Ibid*, 321.

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